MOOSE LAKE LOGGERS LTD.

ANNUAL REPORT

1988 - 1989

91-02156/

MOOSE LAKE LOGGERS LTD.

BOARD OF DIRECTORS

Clement Jones - Chairperson

Manager - Ducks Unlimited

R. Grey

Foreman - Moose Lake Loggers Ltd.

H. Boyle

Director - Regional Services Branch, Dept. of Natural Resources

L. Easter

Band Member - Moose Lake Indian Band

J. Martin

Cattle Rancher - Moose Lake Community

J. Mercredi

Logger - Moose Lake Loggers Ltd.

M. Bercier

Logger - Moose Lake Loggers Ltd.

G. P. Trithart

Director - Corporate Projects

Department of Northern Affairs

OFFICERS

Clement Jones

President

R. J. Kivisto

General Manager

G. P. Trithart

Secretary-Treasurer

HEAD OFFICE: Moose Lake, Manitoba

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The Year Ended March 31, 1989

ANNUAL REPORT - MOOSE LAKE LOGGERS LTD.

APRIL 1, 1988 - MARCH 31, 1989

I. INTRODUCTION:

Moose Lake Loggers Ltd. is a Crown Corporation. It was formed in 1971 under the authority of the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation to provide employment for the residents of Moose Lake and the surrounding areas. The Corporation has a mandate to train local residents to fill the jobs it creates. The Crown's ultimate goal is the divestiture of the corporation to the local residents.

The Company uses skidders to harvest sawlogs and pulpwood in tree lengths for sale to Manfor Ltd. (in The Pas). Most of the Company's employees are people of aboriginal ancestry from the Community of Moose Lake, Manitoba. Although the community is located near valuable forestry resources, it traditionally suffers from a serious lack of employment opportunities.

II. MAJOR DEVELOPMENTS

During the period ending March 31, 1977, the Corporation experienced six years of continuous losses, the accumulated total loss was $551,000. However, the Company experienced profits in six of the following 12 years of operation. This is illustrated by the following figures which are prior to any operating assistance from the Government of the Province of Manitoba:

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Year Ending March 31st	Profit (Loss)
1989	(183,517)
1988	(142,359)
1987	71,488
1986	(11,617)
1985	37,952
1984	(51,042)
1983	1,029
1982	(98,286)
1981	127,544
1980	(18,306)
1979	54,420
1978	52,994

Despite the Company's reasonable success during the years ending March 31, 1978 through 1988, when it was not necessary for Government to provide for operational losses, its inability to maintain productivity at levels comparable to the industry standards contributed to the current financial dilemma.

Moose Lake Loggers Ltd., sole market Manfor Ltd. discontinued its camp operations in 1987 and in 1988, and thereafter all their pricing was based on the cost of commuter operations. This resulted in a revenue loss of $7.05 per cord. Since Moose Lake Loggers Ltd. still maintained its camp operation, its production costs could not be brought into line with those being experienced by Manfor commuter operations.

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The management of Moose Lake Loggers Ltd. explored various operational changes including the introduction of a commuter operation. However, owing to the long distance from resources, the resultant high costs of transportation and the excessive travel time cost a commuter operation proved not to be a financially viable alternative.

The Company completed a contract with Manfor Ltd. to plant 469,000 seedlings. Last year's contract was for 1,235,000 seedling trees. This project enabled 30 residents of Moose Lake and Company employees to find summer jobs.

Mr. Howard Holmgren, a member of the Board of Directors since 1973, resigned July 1988. Mr. Holmgren's dedication, knowledge of the industry and expertise will be missed.

Presently the corporation's entire production is produced by 21 owner/operated skidder machines, of which 14 are operated by residents of the area. One Company-owned machine is being operated by a resident of Moose Lake.

III. REVIEW OF RESULTS

A. Financial Results

Appended to this report is the Provincial Auditor's audited financial statement for the year ended March 31, 1989. The statement reported an excess of expenditures over revenues, before operating assistance from the Province of Manitoba of $183,517 (1987-88 $142,359).

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While the per cord revenue increased by $1.46 per cord, the cost of the wages and benefits increased by $1.39 per cord owing to the Manfor agreement with the International Woodworkers Union of America. Similarly, to establish reasonable parity with Manfor, the cost of equipment rentals was increased by $.65 per cord. Through a special arrangement with Manfor, fuel costs were decreased by 42% or $1.29 per cord. Since the total administrative costs remained constant with the prior year, the increase in cords produced and sold lowered the per cord production cost by $.82.

The following table illustrates per cord costs for major expenditure categories over the past three years:

Cost Category	1986-87	1987-88	1988-89
Wages & Benefits (excludes tree planting)	$ 32.64	$33.55	$34.94
Equipment	11.51	12.67	13.32
Fuel	2.95	3.10	1.81
Total Direct Logging Costs	39.02	40.86	42.95
Total Camp Operations costs	11.54	11.50	10.57
Total Administrative Costs	4.30	4.65	3.83
Total Costs	$54.86	$57.01	$57.35

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B. Production

Production in fiscal year 1988-89 was 59,913 cords, an increase of 11,305 cords from the previous year.

A comparison of annual production, in cords, for the last five years is provided in the following table:

Year Ending March 31st	Owner/Operators
1989	59,913
1988	48,608
1987	56,072
1986	56,634
1985	63,545

Quite apart from the financial burden of the camp operations, the rate of productivity and volume decreases had a significant effect on the Company's results. Not since 1982 has the Company been able to obtain a 72,000 cord contract. A 72,000 cord contract is considered financially viable and a sustainable annual production level for this operation. Contracts with Manfor Ltd. are based on the calendar year. The assigned quota for 1988 and 1989 was 58,200 cords.

C. Related Activities

Employment remains constant at 71 employees. Approximately 80% of those employed are Native residents of Moose Lake, Cormorant, Cranberry Portage and The Pas. Excluding The Pas, there is a little or no alternate employment in these communities, except for traditional commercial fishing and trapping which is seasonal at best. Included in the 71 employees were 57 piece workers, 7 hourly and 7 salaried staff.

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In 1988-89, the average annual salary for loggers was $29,477 compared to $22,334, $24,769 and $25,259 in each of the three respective previous years.

The Company maintained a commissary which provided a variety of clothing, confectionery items and saw parts for employees. Parts and service were also provided to owner/operators. However, some owner/operators have developed to the stage where they operate quite independently from the Company.

D. Training

The Company continued to provide on-the-job training. The success of the training program is shown in the following favourable results:

	Total Staff		Native Staff	
	1988-89	1987-88	1988-89	1987-88
Office	3	3*	3	3*
Foremen	3	3	3	3
Kitchen & Dorms**	7	7	7	7

* One part-time
** Six are females

Manitoba

Office of the Provincial Auditor

MOOSE LAKE LOGGERS LTD.

Auditor's Report and Financial Statements
for the year ended March 31, 1989

Manitoba

MOOSE LAKE LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Moose Lake Loggers Ltd. as at March 31, 1989 and the statements of retained earnings, revenues and expenditures, and changes in financial position, and the schedule of operating expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. W. Singleton, CA
Assistant Provincial Auditor

May 19, 1989,
Winnipeg, Manitoba.

EXHIBIT A

MOOSE LAKE LOGGERS LTD.

Balance Sheet
as at March 31, 1989
(with 1988 figures for comparison)

	1989	1988
ASSETS		
Current assets:		
Short term deposits	$ -	$ 75,000
Accounts receivable (Note 3)	588,065	360,996
Loans receivable from sub-contractors re purchase of equipment-secured	19,532	34,495
Inventories, at cost	61,534	48,067
Prepaid expenses	17,386	21,931
Total current assets	686,517	540,489
Fixed and other assets (Note 4)	104,888	149,632
	$ 791,405	$ 690,121
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Excess of outstanding cheques over bank balances	$ 102,253	$ 93,140
Bank demand loan (Note 5)	160,000	70,000
Accounts payable and accrued liabilities (Note 6)	202,760	167,072
Total current liabilities	465,013	330,212
Shareholders' equity:		
Capital stock (Note 7)		
Authorized - 35,000 common shares for a maximum consideration of $350,000		
Issued and fully paid - 30,009 common shares	300,090	300,090
Contributed surplus:		
Grant from the Government of Canada towards capital expenditures	5,720	5,720
Retained earnings, Exhibit B	20,582	54,099
Total shareholders' equity	326,392	359,909
	$ 791,405	$ 690,121

Approved by the Board:

Director _____

Director _____

MOOSE LAKE LOGGERS LTD.

Statement of Retained Earnings
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Balance, beginning of year	$ 54,099	$ 196,458
Less: Excess of expenditures over revenues, Exhibit C	33,517	142,359
Balance, end of year, Exhibit A	$ 20,582	$ 54,099

MOOSE LAKE LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Revenues:		
Log cutting contract - Manfor Ltd.	$ 2,987,484	$ 2,352,981
Commissary sales	470,546	368,999
Tree planting	115,620	310,019
Board charges	105,747	96,952
Trainee reimbursement - Government of Canada	40,382	-
Miscellaneous	25,661	18,350
Road maintenance	21,299	26,813
Interest income	4,485	10,839
Accounting service fees	1,600	2,600
Total revenues	3,772,824	3,187,553
Expenditures, Exhibit E:		
Log cutting contracts	2,572,744	1,990,928
Camp operations	1,063,059	897,943
General and administrative	229,360	225,703
Tree planting	91,178	215,338
Total expenditures, Exhibit E	3,956,341	3,329,912
Excess of expenditures over revenues, before operating assistance from the Government of the Province of Manitoba	183,517	142,359
Operating assistance from the Government of the Province of Manitoba	150,000	-
Excess of expenditures over revenues, Exhibit B	$ 33,517	$ 142,359

MOOSE LAKE LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Cash Provided By (Used For):		
Operating activities:		
Excess of expenditures over revenues	$ (33,517)	$ (142,359)
Item not involving cash		
Depreciation and amortization	80,426	86,815
	46,909	(55,544)
Net change in non-cash working capital balances related to operations	(185,340)	44,746
	(138,431)	(10,798)
Investing activities:		
Additions to fixed assets	(35,682)	(23,975)
Decrease in cash	(174,113)	(34,773)
Cash deficiency at beginning of period	(88,140)	(53,367)
Cash deficiency at end of period	$ (262,253)	$ (88,140)
Represented by:		
Short term deposits	$ -	$ 75,000
Bank demand loan	(160,000)	(70,000)
Outstanding cheques	(102,253)	(93,140)
	$ (262,253)	$ (88,140)

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Log cutting contracts:		
Wages and benefits	$ 1,685,521	$ 1,288,626
Equipment rental	790,306	609,653
Fuel and oil	34,685	49,146
Health and post secondary education tax levy	33,343	25,192
Miscellaneous supplies	22,563	16,776
Repairs and maintenance	6,326	1,535
Exhibit C	2,572,744	1,990,928
Camp operations:		
Wages and benefits	260,600	200,049
Provisions	133,640	112,049
Repairs and maintenance	74,506	45,927
Fuel and oil	65,185	92,469
Depreciation	62,915	71,587
Insurance	14,732	21,214
Freight	8,836	3,241
Equipment rental	7,635	6,237
Health and post secondary education tax levy	5,114	3,887
Amortization - main road	-	2,260
	633,163	558,920
Commissary - cost of sales	429,896	339,023
Exhibit C	1,063,059	897,943
Carried forward	$ 3,635,803	$ 2,888,871

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Brought forward	$ 3,635,803	$ 2,888,871
General and administrative:		
Wages and benefits	146,741	141,717
Professional fees	18,597	19,522
Fuel and oil	8,113	8,848
Miscellaneous	7,401	10,647
Interest expenditure	6,946	1,570
Directors' fees and salaries	6,813	8,162
Insurance	6,298	6,457
Depreciation	4,929	7,038
Directors' travel	4,794	6,396
Communications	4,768	4,055
Stationery and supplies	4,068	2,548
Travel	3,774	3,948
Repairs and maintenance	3,130	2,014
Health and post secondary education tax levy	2,988	2,781
Exhibit C	229,360	225,703
Tree planting:		
Wages and benefits	75,431	200,714
Tools and bags	5,653	915
Bus and trucks	4,410	6,621
Miscellaneous	3,389	2,074
Health and post secondary education tax levy	1,546	3,953
Equipment maintenance	749	1,061
Exhibit C	91,178	215,338
Total expenditures, Exhibit C	$ 3,956,341	$ 3,329,912

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1989

1. Nature of Operations

Moose Lake Loggers Ltd. was formed in 1971 under the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation providing employment for residents of Moose Lake and surrounding areas. The Company also has a mandate to train local residents to fill the jobs created, with the ultimate goal being management by local residents.

2. Significant Accounting Policies

General:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles.

Fixed and other assets:

Fixed and other assets are stated at cost. It is the Company's policy to provide for depreciation and amortization of fixed and other assets on the basis shown in Note 4.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to roadside and scaled, in accordance with the terms of the sales contract.

Administrative expenses:

Certain administrative expenses, as detailed in Note 8, are provided at no charge or at a reduced charge by the Government of the Province of Manitoba.

Pension Plan:

The Company participates in a multi-employer pension plan for hourly paid employees represented by the IWA-Canada. The plan is non-contributory for employees. The initial unfunded liability in the plan as at September 1, 1986 is not accrued in the financial statements but is being funded by special annual instalments until August 31, 2001.

3. Accounts Receivable

	1989	1988
Trade	$ 422,311	$ 337,266
Employees	15,754	20,825
Government of the Province of Manitoba	150,000	2,905
	$ 588,065	$ 360,996

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1989

4. Fixed and Other Assets

	1989			1988
	Cost	Accumulated Depreciation and Amortization	Net	Net
Main road construction	$ 235,321			
Less grants received	156,000			
	79,321	$ 79,321	$ -	$ -
Campsite improvements	95,197	89,320	5,877	22,080
Buildings and trailers	509,829	485,353	24,476	64,702
Equipment	318,786	244,251	74,535	62,850
Total	$ 1,003,133	$ 898,245	$ 104,888	$ 149,632

The Company depreciates its fixed assets and amortizes its other assets on the following basis:

	Annual Rate
A) Depreciation	
a) Straight line	
Buildings	10-33 1/3%
Trailers	15-33 1/3%
Equipment	12 1/2-33 1/3%
b) Diminishing balance	
Trucks	30%
B) Amortization	
a) Straight line	
Campsite improvements	12 1/2-33 1/3%
b) Other	
Main road construction	10 cents per cord sold

5. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1989

6. Accounts Payable and Accrued Liabilities

	1989	1988
Trade	$ 98,066	$ 63,499
Government of the Province of Manitoba	11,841	31,070
Wage deductions	64,617	47,167
Employees	28,236	25,336
	$ 202,760	$ 167,072

7. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

8. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $24,000 (1988 - $24,000). The Government of the Province of Manitoba provides Workers Compensation coverage for Company staff. Effective April 1, 1987 the Company agreed to pay the lesser of $60,000 per annum or actual costs billed to the Government of the Province of Manitoba. The total cost to the Company was $60,000 (1988 - $60,000). Actual cost paid by the Government of the Province of Manitoba to the Workers Compensation Board on the Company's behalf was $214,319 (1988 - $117,702).

9. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba and Manfor Ltd., which is wholly owned by the Government of the Province of Manitoba. Subsequent to March 31, 1989 the Government of the Province of Manitoba sold its interest in Manfor Ltd. to Repap Pulp & Paper Inc.

10. Comparative Figures

Certain figures for the preceding period have been reclassified to conform with the presentation adopted for 1989.

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1989

11. Imputed Interest Cost Information

The following information is supplied in accordance with the request of the Minister of Finance.

The annual borrowing cost to the Government for the average investment of $300,090 in share capital at the weighted average rate of 10.52% paid by the Government in respect of its 1988 debt is $31,600.

12. Pension Liability

A full actuarial valuation of the pension plan was performed as at September 1, 1986. On the basis of a projection, the actuary has estimated that Moose Lake Logger's share of the unfunded liability is $67,498 as at December 31, 1988.